

103D CONGRESS
1ST SESSION

S. 374

To amend the Internal Revenue Code of 1986 to provide incentives for domestic oil and natural gas exploration and production, and for other purposes.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 16 (legislative day, JANUARY 5), 1993

Mr. NICKLES (for himself and Mr. BOREN) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to provide incentives for domestic oil and natural gas exploration and production, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Energy Independence, Infrastructure, and Investment
6 Act of 1993”.

7 (b) AMENDMENT OF 1986 CODE.—Except as other-
8 wise expressly provided, whenever in this Act an amend-
9 ment or repeal is expressed in terms of an amendment

1 to, or repeal of, a section or other provision, the reference
 2 shall be considered to be made to a section or other provi-
 3 sion of the Internal Revenue Code of 1986.

4 **TITLE I—ENERGY**
 5 **INDEPENDENCE INCENTIVES**

6 **SEC. 101. FEE ON IMPORTED CRUDE OIL AND REFINED PE-**
 7 **TROLEUM PRODUCTS.**

8 (a) IN GENERAL.—Subtitle E (relating to alcohol, to-
 9 bacco, and certain other excise taxes) is amended by add-
 10 ing at the end thereof the following new chapter:

11 **“CHAPTER 55—IMPORTED CRUDE OIL AND**
 12 **REFINED PETROLEUM PRODUCTS**

“Sec. 5891. Imposition of tax.

“Sec. 5892. Definitions.

“Sec. 5893. Registration.

“Sec. 5894. Procedures; returns; penalties.

“Sec. 5895. Adjustment for inflation.

13 **“SEC. 5891. IMPOSITION OF TAX.**

14 “(a) IMPOSITION OF TAX.—In addition to any other
 15 tax imposed under this title, an excise tax is hereby im-
 16 posed on—

17 “(1) the first sale within the United States of
 18 each barrel (or its equivalent) of—

19 “(A) any crude oil, or

20 “(B) any refined petroleum product,

21 that has been imported into the United States, and

22 “(2) the use within the United States of each
 23 barrel (or its equivalent) of—

1 “(A) any crude oil, or

2 “(B) any refined petroleum product,
3 that has been imported into the United States if no
4 tax has been imposed with respect to such crude oil
5 or refined petroleum product prior to such use.

6 “(b) RATE OF TAX.—

7 “(1) CRUDE OIL.—For purposes of paragraphs
8 (1)(A) and (2)(A) of subsection (a) the rate of tax
9 on any barrel (or its equivalent) shall be the excess,
10 if any, of—

11 “(A) \$25, over

12 “(B) the energy policy price per barrel of
13 crude oil.

14 “(2) REFINED PETROLEUM PRODUCT.—For
15 purposes of paragraphs (1)(B) and (2)(B) of sub-
16 section (a), the rate of tax on any barrel (or its
17 equivalent) shall be equal to—

18 “(A) \$3, plus

19 “(B) the tax determined under paragraph
20 (1) of this subsection.

21 “(3) FRACTIONAL PARTS OF BARRELS.—In the
22 case of a fraction of a barrel, the tax imposed by
23 subsection (a) shall be the same fraction of the
24 amount of such tax imposed on the whole barrel.

25 “(c) DETERMINATION OF ENERGY POLICY PRICE.—

1 “(1) IN GENERAL.—For purposes of this sec-
2 tion, the energy policy price with respect to any
3 week during which the tax under subsection (a) is
4 imposed shall be determined by the Secretary and
5 published in the Federal Register on the first day of
6 such week.

7 “(2) BASIS OF DETERMINATION.—For pur-
8 poses of paragraph (1), the energy policy price for
9 any week is the weighted average international price
10 of a barrel of crude oil for the preceding 4 weeks as
11 determined by the Secretary, after consultation with
12 the Administrator of the Energy Information Ad-
13 ministration of the Department of Energy, pursuant
14 to the formula for determining such international
15 price as used in publishing the Weekly Petroleum
16 Status Report and as in effect on the date of the en-
17 actment of this section.

18 “(d) LIABILITY FOR PAYMENT OF TAX.—

19 “(1) SALES.—The taxes imposed by subsection
20 (a)(1) shall be paid by the first person who sells the
21 crude oil or refined petroleum product within the
22 United States.

23 “(2) USE.—The taxes imposed by subsection
24 (a)(2) shall be paid by the person who uses the
25 crude oil or refined petroleum product.

1 “(3) TAX-FREE EXPORTS.—

2 “(A) IN GENERAL.—Under regulations
3 prescribed by the Secretary, no tax shall be im-
4 posed under this chapter on the sale of crude
5 oil or refined petroleum product for export or
6 for resale by the purchaser to a second pur-
7 chaser for export.

8 “(B) PROOF OF EXPORT.—Where any
9 crude oil or refined petroleum product has been
10 sold free of tax under subparagraph (A), such
11 subparagraph shall cease to apply with respect
12 to the sale of such crude oil or refined petro-
13 leum product, unless, within the 6-month period
14 which begins on the date of the sale, the seller
15 receives proof that the crude oil or refined pe-
16 troleum product has been exported.

17 **“SEC. 5892. DEFINITIONS.**

18 “For purposes of this chapter—

19 “(1) CRUDE OIL.—The term ‘crude oil’ means
20 crude oil other than crude oil produced from a well
21 located in the United States (within the meaning of
22 section 638(2)) or a possession of the United States.

23 “(2) BARREL.—The term ‘barrel’ means 42
24 United States gallons.

1 “(3) REFINED PETROLEUM PRODUCT.—The
 2 term ‘refined petroleum product’ shall have the same
 3 meaning given to such term by section 3(5) of the
 4 Emergency Petroleum Allocation Act of 1973 (15
 5 U.S.C. 752(5)).

6 “(4) EXPORT.—The term ‘export’ includes ship-
 7 ment to a possession of the United States; and the
 8 term ‘exported’ includes shipment to a possession of
 9 the United States.

10 **“SEC. 5893. REGISTRATION.**

11 “Every person subject to tax under section 5891
 12 shall, before incurring any liability for tax under such sec-
 13 tion, register with the Secretary.

14 **“SEC. 5894. PROCEDURES; RETURNS; PENALTIES.**

15 “For purposes of this title, the tax imposed by section
 16 5891 shall be treated in the same manner as the tax im-
 17 posed by section 4986 (as in effect before its repeal).

18 **“SEC. 5890. ADJUSTMENT FOR INFLATION.**

19 “In the case of any calendar year beginning after
 20 1993, the dollar amount referred to in section
 21 5886(b)(1)(A) and section 5886(b)(2)(A) shall be in-
 22 creased by an amount equal to—

23 “(A) such dollar amount, multiplied by

24 “(B) the cost-of-living adjustment deter-
 25 mined under section 1(f)(3) for the calendar

1 year, by substituting ‘calendar year 1992’ for
 2 ‘calendar year 1989’ in subparagraph (B)
 3 thereof.’’.

4 (b) CONFORMING AMENDMENT.—The table of chap-
 5 ters for subtitle E is amended by adding at the end thereof
 6 the following new item:

“Chapter 55. Imported crude oil and refined petroleum prod-
 ucts.”.

7 (c) DEDUCTIBILITY OF IMPORTED OIL TAX.—The
 8 first sentence of section 164(a) (relating to deductions for
 9 taxes) is amended by inserting after paragraph (5) the fol-
 10 lowing new paragraph:

11 “(6) The imported oil taxes imposed by section
 12 5891.”.

13 (d) EFFECTIVE DATE.—The amendments made by
 14 this section shall apply with respect to sales and use of
 15 imported crude oil or refined petroleum products on or
 16 after the date of the enactment of this Act.

17 **TITLE II—INFRASTRUCTURE** 18 **INCENTIVES**

19 **SEC. 201. INCREASE IN PERCENTAGE DEPLETION FOR** 20 **STRIPPER WELLS.**

21 (a) IN GENERAL.—Subparagraph (C) of section
 22 613A(c)(6) (relating to oil and natural gas produced from
 23 marginal properties) is amended—

1 (1) by striking “25 percent” and inserting
2 “27.5 percent” in the matter preceding clause (i),
3 and

4 (2) by striking “\$20” and inserting “\$28” in
5 clause (ii).

6 (b) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to taxable years beginning after
8 December 31, 1992.

9 **SEC. 202. NET INCOME LIMITATION ON PERCENTAGE DE-**
10 **PLETION REPEALED FOR OIL AND GAS PROP-**
11 **ERTIES.**

12 (a) IN GENERAL.—Section 613(a) (relating to per-
13 centage depletion) is amended by striking the second sen-
14 tence and inserting: “Except in the case of oil and gas
15 properties, such allowance shall not exceed 50 percent of
16 the taxpayer’s taxable income from the property (com-
17 puted without allowances for depletion).”.

18 (b) CONFORMING AMENDMENT.—Section 613A(c)(7)
19 (relating to special rules) is amended by striking subpara-
20 graph (C) and redesignating subparagraph (D) as sub-
21 paragraph (C).

22 (c) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to taxable years beginning after
24 December 31, 1992.

1 **SEC. 203. CRUDE OIL AND NATURAL GAS EXPLORATION**
 2 **AND DEVELOPMENT CREDIT.**

3 (a) CRUDE OIL AND NATURAL GAS EXPLORATION
 4 AND DEVELOPMENT CREDIT.—Subpart B of part IV of
 5 subchapter A of chapter 1 (relating to foreign tax credit,
 6 etc.) is amended by adding the following new section:

7 **“SEC. 30A. CRUDE OIL AND NATURAL GAS EXPLORATION**
 8 **AND DEVELOPMENT CREDIT.**

9 “(a) GENERAL RULE.—There shall be allowed as a
 10 credit against the tax imposed by this chapter for the tax-
 11 able year an amount equal to the sum of—

12 “(1) 20 percent of so much of the taxpayer’s
 13 qualified investment for the taxable year as does not
 14 exceed \$1,000,000, plus

15 “(2) 10 percent of so much of such qualified in-
 16 vestment for the taxable year as exceeds \$1,000,000.

17 “(b) QUALIFIED INVESTMENT.—For purposes of this
 18 section, the term ‘qualified investment’ means amounts
 19 paid or incurred—

20 “(1) for geological and geophysical expenditures
 21 incurred for the purpose of ascertaining the exist-
 22 ence, location, extent, or quality of any crude oil or
 23 natural gas deposit, including core testing and drill-
 24 ing test wells,

25 “(2) for the purpose of drilling and equipping
 26 crude oil and natural gas wells (including pollution

1 control equipment used in connection with such
2 wells), or

3 “(3) for the purpose of performing secondary or
4 tertiary recovery techniques,

5 on properties located in the United States or in a posses-
6 sion of the United States as defined in section 638 (relat-
7 ing to Continental Shelf areas), but only to the extent that
8 the expenditure is not a qualified cost under section 30B.

9 “(c) LIMITATION BASED ON AMOUNT OF TAX.—

10 “(1) LIABILITY FOR TAX.—The credit allowable
11 under subsection (a) for any taxable year shall not
12 exceed—

13 “(A) the sum of—

14 “(i) the taxpayer’s minimum tax li-
15 ability under section 55(a) for such taxable
16 year, plus

17 “(ii) the taxpayer’s regular tax liabil-
18 ity for such taxable year (as defined in sec-
19 tion 26(b)), over

20 “(B) the sum of the credits allowable
21 against the taxpayer’s regular tax liability
22 under subparts A and D of this part and sec-
23 tions 27, 28, 29, and 30.

24 “(2) CARRYBACK AND CARRYFORWARD OF UN-
25 USED CREDIT.—

1 “(A) IN GENERAL.—If the amount of the
2 credit allowed under subsection (a) for any tax-
3 able year exceeds the limitation under para-
4 graph (1) for such taxable year (hereinafter in
5 this paragraph referred to as the ‘unused credit
6 year’), such excess shall be—

7 “(i) an oil and gas exploration and de-
8 velopment credit carryback to each of the
9 3 taxable years preceding the unused cred-
10 it year, and

11 “(ii) an oil and gas exploration and
12 development credit carryforward to each of
13 the 15 taxable years following the unused
14 credit year,

15 and shall be added to the amount allowable as
16 a credit under subsection (a) for such years. If
17 any portion of such excess is a carryback to a
18 taxable year beginning on or before the date of
19 the enactment of this section, this section shall
20 be deemed to have been in effect for such tax-
21 able year for purposes of allowing such
22 carryback as a credit under this section. The
23 entire amount of the unused credit shall be car-
24 ried to the earliest of the 18 taxable years to
25 which such credit may be carried, and then to

1 each of the other 17 taxable years to the extent
2 that, because of the limitation contained in
3 paragraph (1), such unused credit may not be
4 added for a prior taxable year to which such
5 unused credit may be carried.

6 “(B) LIMITATIONS.—The amount of the
7 unused credit which may be taken into account
8 under subparagraph (A) for any succeeding tax-
9 able year shall not exceed the amount by which
10 the limitation provided by paragraph (1) for
11 such taxable year exceeds the sum of—

12 “(i) the credit allowable under sub-
13 section (a) for such taxable year, and

14 “(ii) the amounts which, by reason of
15 this paragraph, are added to the amount
16 allowable for such taxable year and which
17 are attributable to taxable years preceding
18 the unused credit year.

19 “(d) SPECIAL RULES.—For purposes of this sec-
20 tion—

21 “(1) AGGREGATION OF QUALIFIED INVESTMENT
22 EXPENSES.—

23 “(A) CONTROLLED GROUPS; COMMON CON-
24 TROL.—In determining the amount of the cred-
25 it under this section, all members of the same

1 controlled group of corporations (within the
2 meaning of section 52(a)) and all persons under
3 common control (within the meaning of section
4 52(b)) shall be treated as a single taxpayer for
5 purposes of this section.

6 “(B) APPORTIONMENT OF CREDIT.—The
7 credit (if any) allowable by this section to mem-
8 bers of any group (or to any person) described
9 in subparagraph (A) shall be such member’s or
10 person’s proportionate share of the qualified in-
11 vestment expenses giving rise to the credit de-
12 termined under regulations prescribed by the
13 Secretary.

14 “(2) PARTNERSHIPS, S CORPORATIONS, ES-
15 TATES AND TRUSTS.—

16 “(A) PARTNERSHIPS AND S CORPORA-
17 TIONS.—In the case of a partnership, the credit
18 shall be allocated among partners under regula-
19 tions prescribed by the Secretary. A similar rule
20 shall apply in the case of an S corporation and
21 its shareholders.

22 “(B) PASS-THRU IN THE CASE OF ES-
23 TATES AND TRUSTS.—Under regulations pre-
24 scribed by the Secretary, rules similar to the
25 rules of subsection (d) of section 52 shall apply.

1 “(3) ADJUSTMENTS FOR CERTAIN ACQUISITIONS AND DISPOSITIONS.—Under regulations prescribed by the Secretary, rules similar to the rules contained in section 41(f)(3) shall apply with respect to the acquisition or disposition of a taxpayer.

6 “(4) SHORT TAXABLE YEARS.—In the case of any short taxable year, qualified investment expenses shall be annualized in such circumstances and under such methods as the Secretary may prescribe by regulation.

11 “(5) DENIAL OF DOUBLE BENEFIT.—

12 “(A) DISALLOWANCE OF DEDUCTION.—
13 Any deduction allowable under this chapter for
14 any costs taken into account in computing the
15 amount of the credit determined under subsection (a) shall be reduced by the amount of
16 such credit attributable to such costs.

18 “(B) BASIS ADJUSTMENTS.—For purposes
19 of this subtitle, if a credit is determined under
20 this section for any expenditure with respect to
21 any property, the increase in the basis of such
22 property which would (but for this subsection)
23 result from such expenditures shall be reduced
24 by the amount of the credit so allowed.”.

1 (b) CLERICAL AMENDMENT.—The table of sections
 2 for subpart B of part IV of subchapter A of chapter 1
 3 is amended by adding at the end thereof the following new
 4 item:

“Sec. 30A. Crude oil and natural gas exploration and development credit.”.

5 (c) EFFECTIVE DATE.—The amendments made by
 6 this section shall apply to expenditures paid or incurred
 7 after the date of enactment of this Act in taxable years
 8 ending after such date.

9 **SEC. 204. MARGINAL PRODUCTION CREDIT.**

10 (a) IN GENERAL.—Subpart B of part IV of sub-
 11 chapter A of chapter 1 (relating to foreign tax credit, etc.),
 12 as amended by section 203(a), is amended by adding the
 13 following new section:

14 **“SEC. 30B. MARGINAL PRODUCTION CREDIT.**

15 “(a) ALLOWANCE OF CREDIT.—There shall be al-
 16 lowed as a credit against the tax imposed by this chapter
 17 for the taxable year to the producer of eligible crude oil
 18 or eligible natural gas an amount equal to 20 percent of
 19 the qualified cost of each barrel of such oil or each barrel-
 20 of-oil equivalent of such gas (or fractional part thereof)
 21 produced during the taxable year.

22 “(b) QUALIFIED COST.—For purposes of this section,
 23 the term ‘qualified cost’ means, with respect to each barrel

1 of eligible crude oil or each barrel-of-oil equivalent of eligi-
 2 ble natural gas, the sum of—

3 “(1) such barrel’s or barrel-of-oil equivalent’s
 4 pro rata share of the lease operating expenses (other
 5 than business overhead expenses) paid or incurred
 6 by the producer of such barrel or barrel-of-oil equiv-
 7 alent during the taxable year in which such barrel
 8 or barrel-of-oil equivalent was produced, plus

9 “(2) the amount of severance tax paid or in-
 10 curred by such producer with respect to such barrel
 11 or barrel-of-oil equivalent.

12 “(c) DEFINITIONS.—For purposes of this section—

13 “(1) ELIGIBLE CRUDE OIL.—The term ‘eligible
 14 crude oil’ means domestic crude oil which is—

15 “(A) from a stripper well property,

16 “(B) heavy oil,

17 “(C) oil recovered through a tertiary recov-
 18 ery method, or

19 “(D) harsh environment oil.

20 “(2) ELIGIBLE NATURAL GAS.—The term ‘eligi-
 21 ble natural gas’ means gas, other than gas qualify-
 22 ing for the credit under section 29, which is—

23 “(A) from a stripper well property, or

24 “(B) natural gas recovered through a ter-
 25 tiary recovery method.

1 “(3) OTHER DEFINITIONS.—

2 “(A) CRUDE OIL.—The term ‘crude oil’
3 has the meaning given to such term by the
4 June 1979 energy regulations.

5 “(B) BARREL.—The term ‘barrel’ means
6 42 United States gallons.

7 “(C) BARREL-OF-OIL EQUIVALENT.—The
8 term ‘barrel-of-oil equivalent’ with respect to
9 any natural gas means that amount of such
10 natural gas which has a Btu content of 5.8 mil-
11 lion.

12 “(D) DOMESTIC.—The term ‘domestic’
13 when used with respect to crude oil, means
14 crude oil produced from a property located in
15 the United States or a possession of the United
16 States.

17 “(E) UNITED STATES.—The term ‘United
18 States’ has the meaning given to such term by
19 paragraph (1) of section 638 (relating to Con-
20 tinental Shelf areas).

21 “(F) POSSESSION OF THE UNITED
22 STATES.—The term ‘possession of the United
23 States’ has the meaning given to such term by
24 paragraph (2) of section 638.

1 “(G) STRIPPER WELL PROPERTY.—The
2 term ‘stripper well property’ has the meaning
3 given to such term by subparagraph (E) of sec-
4 tion 613A(c)(6).

5 “(H) PROPERTY.—The term ‘property’
6 means property as defined in section 614.

7 “(I) HEAVY OIL.—The term ‘heavy oil’
8 means all crude oil which is produced from a
9 property if crude oil produced and sold from
10 such property during—

11 “(i) the last month before July 1979
12 in which crude oil was produced and sold
13 from such property, or

14 “(ii) the taxable year had a weighted
15 average gravity of 20 degrees API or less
16 (corrected to 60 degrees Fahrenheit).

17 “(J) TERTIARY RECOVERY METHOD.—The
18 term ‘tertiary recovery method’ means—

19 “(i) any method which is described in
20 subparagraphs (1) through (9) of section
21 212.78(c) of the October 1979 energy reg-
22 ulations, or

23 “(ii) any other method to provide ter-
24 tiary enhanced recovery (including steam

1 generation) which is approved by the Sec-
2 retary for purposes of this section.

3 “(K) HARSH ENVIRONMENT OIL.—The
4 term ‘harsh environment oil’ means oil pro-
5 duced from a property located north of the 49th
6 parallel or under at least 400 feet of water.

7 “(L) SEVERANCE TAX.—The term ‘sever-
8 ance tax’ means a tax imposed by a State or
9 political subdivision thereof with respect to the
10 extraction of crude oil.

11 “(M) ENERGY REGULATIONS.—

12 “(i) IN GENERAL.—The term ‘energy
13 regulations’ means regulations prescribed
14 under section 4(a) of the Energy Petro-
15 leum Allocation Act of 1973 (15 U.S.C.
16 753(a)).

17 “(ii) JUNE 1979 ENERGY REGULA-
18 TIONS.—The June 1979 energy regulations
19 shall be the terms of the energy regula-
20 tions as such terms existed on June 1,
21 1979.

22 “(iii) OCTOBER 1979 ENERGY REGULA-
23 TIONS.—The October 1979 Energy Regu-
24 lations shall be the terms of the energy

1 regulations as such terms existed on Octo-
 2 ber 30, 1979.

3 “(iv) CONTINUED APPLICATION OF
 4 REGULATIONS AFTER DECONTROL.—En-
 5 ergy regulations shall be treated as con-
 6 tinuing in effect without regard to decon-
 7 trol of oil prices or any other termination
 8 of the application of such regulations.

9 “(d) SPECIAL RULE FOR OFFSHORE WELLS.—In the
 10 case of eligible crude oil or eligible natural gas produced
 11 from a property located under at least 400 feet (but less
 12 than 1,200 feet) of water, the percentage determined
 13 under the following table shall be substituted for ‘20 per-
 14 cent’ in subsection (a):

**“If distance (in feet) of the property
 under water is—**

At least	But less than	The percentage is—
400	600	5 percent
600	900	10 percent
900	1,200	15 percent

15 “(e) LIMITATION BASED ON AMOUNT OF TAX.—

16 “(1) LIABILITY FOR TAX.—The credit allowable
 17 under subsection (a) for any taxable year shall not
 18 exceed—

19 “(A) the sum of—

1 “(i) the taxpayer’s minimum tax li-
 2 ability under section 55(a) for such taxable
 3 year, plus

4 “(ii) the taxpayer’s regular tax liabil-
 5 ity for such taxable year (as defined in sec-
 6 tion 26(b)), over

7 “(B) the sum of the credits allowable
 8 against the taxpayer’s regular tax liability
 9 under subparts A and D of this part and sec-
 10 tions 27, 28, 29, 30, and 30A.

11 “(2) CARRYBACK AND CARRYFORWARD OF UN-
 12 USED CREDIT.—

13 “(A) IN GENERAL.—If the amount of the
 14 credit allowed under subsection (a) for any tax-
 15 able year exceeds the limitation under para-
 16 graph (1) for such taxable year (hereinafter in
 17 this paragraph referred to as the ‘unused credit
 18 year’), such excess shall be—

19 “(i) an oil and gas production credit
 20 carryback to each of the 3 taxable years
 21 preceding the unused credit year, and

22 “(ii) an oil and gas production credit
 23 carryforward to each of the 15 taxable
 24 years following the unused credit year,

1 and shall be added to the amount allowable as
2 a credit under subsection (a) for such years. If
3 any portion of such excess is a carryback to a
4 taxable year beginning on or before the date of
5 the enactment of this section, this section shall
6 be deemed to have been in effect for such tax-
7 able year for purposes of allowing such
8 carryback as a credit under this section. The
9 entire amount of the unused credit shall be car-
10 ried to the earliest of the 18 taxable years to
11 which such credit may be carried, and then to
12 each of the other 17 taxable years to the extent
13 that, because of the limitation contained in
14 paragraph (1), such unused credit may not be
15 added for a prior taxable year to which such
16 unused credit may be carried.

17 “(B) LIMITATIONS.—The amount of the
18 unused credit which may be taken into account
19 under subparagraph (A) for any succeeding tax-
20 able year shall not exceed the amount by which
21 the limitation provided by paragraph (1) for
22 such taxable year exceeds the sum of—

23 “(i) the credit allowable under sub-
24 section (a) for such taxable year, and

1 “(ii) the amounts which, by reason of
 2 this paragraph, are added to the amount
 3 allowable for such taxable year and which
 4 are attributable to taxable years preceding
 5 the unused credit year.”.

6 (b) CLERICAL AMENDMENT.—The table of sections
 7 for subpart B of part IV of subchapter A of chapter 1,
 8 as amended by section 203(b), is amended by adding at
 9 the end thereof the following new item:

 “Sec. 30B. Marginal production credit.”.

10 (c) EFFECTIVE DATE.—The amendments made by
 11 this section shall apply to expenditures paid or incurred
 12 after the date of enactment of this Act in taxable years
 13 ending after such date.

14 **SEC. 205. EXPANSION OF ENHANCED OIL RECOVERY**
 15 **CREDIT.**

16 (a) IN GENERAL.—Section 43(a) (relating to en-
 17 hanced oil recovery credit) is amended to read as follows:

18 “(a) GENERAL RULE.—For purposes of section 38,
 19 the enhanced oil recovery credit for any taxable year is
 20 an amount equal to—

21 “(1) 15 percent of the taxpayer’s qualified en-
 22 hanced oil recovery costs for such taxable year, plus

23 “(2) in the case of a taxpayer (other than an
 24 integrated oil company as defined in section

1 291(b)(4)), 15 percent of the taxpayer’s advanced
 2 secondary recovery costs for such taxable year.”.

3 (b) ADVANCED SECONDARY RECOVERY COSTS,
 4 ETC.—Section 43(c) (defining qualified enhanced oil re-
 5 covery costs) is amended by redesignating paragraphs (3)
 6 and (4) as paragraphs (4) and (5), respectively, and by
 7 inserting after paragraph (2) the following new paragraph:

8 “(3) ADVANCED SECONDARY RECOVERY
 9 COSTS.—

10 “(A) IN GENERAL.—The term ‘advanced
 11 secondary recovery costs’ means any of the fol-
 12 lowing:

13 “(i) Any amount paid or incurred dur-
 14 ing the taxable year for tangible prop-
 15 erty—

16 “(I) which is an integral part of
 17 a qualified advanced secondary recov-
 18 ery project, and

19 “(II) with respect to which de-
 20 preciation (or amortization in lieu of
 21 depreciation) is allowable under this
 22 chapter.

23 “(ii) Any intangible drilling and devel-
 24 opment costs—

1 “(I) which are paid or incurred
2 in connection with a qualified ad-
3 vanced secondary recovery project,
4 and

5 “(II) with respect to which the
6 taxpayer may make an election under
7 section 263(c) for the taxable year.

8 “(iii) Any qualified secondary ad-
9 vanced injectant expenses which are paid
10 or incurred in connection with a qualified
11 advanced secondary recovery project.

12 “(B) QUALIFIED ADVANCED SECONDARY
13 RECOVERY PROJECT.—The term ‘qualified ad-
14 vanced secondary recovery project’ means any
15 project which meets the requirements of sub-
16 paragraph (C) and which involves 1 of the fol-
17 lowing advanced secondary recovery methods:

18 “(i) A method which is used to
19 produce unrecovered oil which remains in a
20 reservoir after conventional production be-
21 cause of heterogeneity and mobility dif-
22 ferences between oil and water.

23 “(ii) A reservoir characterization tech-
24 nique which pinpoints the location of new
25 well sites without regard to traditional

1 spacing requirements (including advanced
2 well logging, advanced geophysical detec-
3 tion technologies, advanced geocellular res-
4 ervoir computer modeling, and precision
5 drilling).

6 “(iii) A drilling method in which the
7 wellbore is deviated from the vertical by a
8 short- or long-range radius technique at a
9 direction parallel to the bedding plane.

10 “(iv) Any other advanced secondary
11 recovery method approved by the Secretary
12 for purposes of this section.

13 “(C) REQUIREMENTS FOR QUALIFIED AD-
14 VANCED SECONDARY RECOVERY PROJECT.—

15 “(i) IN GENERAL.—A project meets
16 the requirements of a qualified advanced
17 secondary recovery project if—

18 “(I) such project involves the ap-
19 plication (in accordance with sound
20 engineering principles) of 1 or more
21 advanced secondary recovery methods
22 which can reasonably be expected to
23 result in more than an insignificant
24 increase in the amount of crude oil
25 which will ultimately be recovered,

1 “(II) such project is located with-
2 in the United States (within the
3 meaning of section 638(1)), and

4 “(III) such project commences
5 after December 31, 1992.

6 “(ii) CERTIFICATION.—A project shall
7 not be treated as a qualified advanced sec-
8 ondary recovery project unless the operator
9 submits to the Secretary (at such times
10 and in such manner as the Secretary pro-
11 vides) a certification from a petroleum
12 engineer that the project meets (and con-
13 tinues to meet) the requirements of clause
14 (i).”.

15 (c) NO DOUBLE CERTIFICATION.—Section 43(c), as
16 amended by subsection (b), is amended by adding at the
17 end thereof the following new paragraph:

18 “(6) ONLY 1 CERTIFICATION ALLOWED.—For
19 purposes of this section, the term ‘qualified en-
20 hanced oil recovery project’ shall not include any
21 project which is certified as a qualified advanced sec-
22 ondary recovery project under paragraph (3) and the
23 term ‘qualified advanced secondary recovery project’
24 shall not include any project which is certified as an
25 enhanced oil recovery project under paragraph (2).”.

1 (d) CONFORMING AMENDMENTS.—

2 (1) Paragraph (4) of section 43(c), as redesign-
3 nated, is amended by inserting “and qualified ad-
4 vanced secondary recovery costs” after “qualified en-
5 hanced oil recovery costs”.

6 (2) The heading for subsection (c) of section 43
7 is amended by inserting “AND QUALIFIED AD-
8 VANCED SECONDARY RECOVERY COSTS” after
9 “COSTS”.

10 (e) EFFECTIVE DATE.—

11 (1) IN GENERAL.—The amendments made by
12 this section shall apply in the case of amounts paid
13 or incurred in taxable years beginning after Decem-
14 ber 31, 1992.

15 (2) EXPANSION OF PROJECTS.—For purposes
16 of section 43(c)(3)(C)(i)(III) of the Internal Reve-
17 nue Code of 1986 (as added by subsection (b)), any
18 significant expansion after December 31, 1992, of a
19 project begun before January 1, 1993, shall be
20 treated as a project which commences after Decem-
21 ber 31, 1992.

22 **SEC. 206. EXPANSION OF STRIPPER WELL DEFINITION.**

23 (a) IN GENERAL.—Clause (i) of section
24 613A(c)(6)(E) (defining stripper well property) is amend-
25 ed by striking “15” and inserting “25”.

1 (b) EFFECTIVE DATE.—The amendment made by
 2 this section shall apply to expenditures paid or incurred
 3 after the date of enactment of this Act in taxable years
 4 ending after such date.

5 **TITLE III—INVESTMENT**
 6 **INCENTIVES**

7 **SEC. 301. AMORTIZATION OF GEOLOGICAL AND GEO-**
 8 **PHYSICAL COSTS.**

9 (a) IN GENERAL.—Section 263 (relating to capital
 10 expenditures) is amended by adding at the end the follow-
 11 ing new subsection:

12 “(j) SPECIAL RULE FOR CERTAIN GEOLOGICAL AND
 13 GEOPHYSICAL COSTS.—Geological and geophysical costs
 14 for the purpose of ascertaining the existence, location, ex-
 15 tent, or quality of any deposit of oil or gas within the Unit-
 16 ed States (within the meaning of section 638(1)) or a pos-
 17 session of the United States (within the meaning of sec-
 18 tion 638(2)) shall be allowed as a deduction ratably over
 19 the 5-year period beginning with the taxable year in which
 20 such costs were paid or incurred.”.

21 (b) EFFECTIVE DATE.—The amendment made by
 22 this section shall apply to costs paid or incurred after the
 23 date of the enactment of this Act in taxable years ending
 24 after such date.

1 **SEC. 302. DEPRECIATION ADJUSTMENTS NOT TO APPLY TO**
 2 **ENVIRONMENTAL PROPERTY.**

3 (a) IN GENERAL.—Subparagraph (B) of section
 4 56(a)(1) (relating to depreciation adjustments) is amend-
 5 ed to read as follows:

6 “(B) EXCEPTION.—With respect to any oil
 7 or gas producer, this paragraph shall not apply
 8 to—

9 “(i) property described in paragraph
 10 (1), (2), (3), or (4) of section 168(f), or

11 “(ii) environmental improvement as-
 12 sets (as defined in section 59(k)).”.

13 (b) ENVIRONMENTAL IMPROVEMENT ASSETS.—Sec-
 14 tion 59 (relating to definition and special rules) is amend-
 15 ed by adding at the end the following new subsection:

16 “(k) ENVIRONMENTAL IMPROVEMENT ASSETS.—

17 “(1) IN GENERAL.—For purposes of section
 18 56(a)(1)(B)(ii), the term ‘environmental improve-
 19 ment asset’ means tangible property which is—

20 “(A) of a character subject to the allow-
 21 ance for depreciation provided in section 167 or
 22 is nondepreciable real property;

23 “(B) used for, or is functionally related to
 24 property used for, one or more of the following
 25 purposes—

26 “(i) source reduction,

- 1 “(ii) solid waste minimization,
- 2 “(iii) waste conversion or recycling,
- 3 “(iv) reduction of environmental haz-
- 4 ards,
- 5 “(v) compliance with environmental
- 6 permits, rules, and similar requirements,
- 7 “(vi) prevention, containment or con-
- 8 trol of unplanned releases, or
- 9 “(vii) the manufacture, distribution
- 10 and sale of alternate fuels and blending
- 11 stocks or fuel additives for reformulated
- 12 fuels, and
- 13 “(C) located and used exclusively in the
- 14 United States during the taxable year.

15 If only a portion of property described in subpara-
 16 graphs (A) and (C) is described in subparagraph
 17 (B), such portion shall be treated as an environ-
 18 mental improvement asset.

19 “(2) OTHER DEFINITIONS.—For purposes of
 20 this subsection—

21 “(A) SOURCE REDUCTION.—The term
 22 ‘source reduction’ means reduction of the
 23 amount of regulated substances or other pollut-
 24 ants from fixed or mobile sources released into

1 the environment if such reduction reduces haz-
2 ards to public health or environment.

3 “(B) WASTE MINIMIZATION.—The term
4 ‘waste minimization’ means the reduction in the
5 generation of, or the recovery of commercially
6 usable products from, residual materials which
7 are classified as, or which if disposed would be
8 classified as, solid wastes (within the meaning
9 of the Resource Conservation and Recovery
10 Act).

11 “(C) WASTE CONVERSION OR RECY-
12 CLING.—The term ‘waste conversion or recy-
13 cling’ means the processing or conversion of liq-
14 uid, solid, or gaseous wastes into fuel, energy,
15 or other commercially usable products, and the
16 production of such products if production oc-
17 curs at the same facility as the conversion.

18 “(D) ABATEMENT OF ENVIRONMENTAL
19 HAZARDS.—The term ‘abatement of environ-
20 mental hazards’ includes the abatement, reduc-
21 tion, monitoring, or stabilization of potential
22 human exposure to toxic chemicals, hazardous
23 or extremely hazardous substances, or harmful
24 radiation.

1 “(E) UNPLANNED RELEASES.—The term
2 ‘unplanned releases’ means any release of regu-
3 lated substances (except federally permitted re-
4 leases), including indoor releases.

5 “(F) REGULATED SUBSTANCE.—The term
6 ‘regulated substance’ includes any substance
7 the release or emission of which is prohibited,
8 limited, or regulated by Federal or State law or
9 by Federal regulations (as determined without
10 regard to whether a particular release would
11 have been prohibited or limited).

12 “(G) RELEASE.—The term ‘release’ means
13 any spilling, leaking, pouring, discharging, es-
14 caping, dumping, or disposing into the environ-
15 ment, including the abandonment or discarding
16 of barrels or other closed receptacles.”.

17 (c) CONFORMING AMENDMENT.—Subparagraph (A)
18 of section 56(g)(4) is amended by adding at the end the
19 following new clause:

20 “(vi) This subparagraph shall not
21 apply to environmental improvement assets
22 (as defined in section 59(k)).”.

23 (d) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to property placed in service in
25 taxable years beginning after December 31, 1992.



S 374 IS——2

S 374 IS——3